

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Area Oil and Gas Supervisors of the Geological Survey, I do hereby:

A. Approve the attached agreement for the development and operation of the Bubbling Spring Unit Area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated _____.

Area Oil and Gas Supervisor
United States Geological Survey

Contract Number _____

SEARCHED	INDEXED
SERIALIZED	FILED
OCT 3 1973	
FBI - ALBUQUERQUE	
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AMOREO	
10-3-73	

UNIT AGREEMENT FOR THE DEVELOPMENT
AND OPERATION OF THE BUBBLING SPRING UNIT AREA
COUNTY OF EDDY, STATE OF NEW MEXICO

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Exhibit "A" (Map)

Exhibit "B" (Description of interests subject to agreement)

1 UNIT AGREEMENT
2 FOR THE DEVELOPMENT AND OPERATION
3 OF THE
4 BUBBLING SPRING UNIT AREA
5 COUNTY OF EDDY
6 STATE OF NEW MEXICO
7 NO. _____

8 THIS AGREEMENT, entered into as of the 1st day of
9 August, 1973, by and between the parties subscribing,
10 ratifying, or consenting hereto, and herein referred to as the "parties
11 hereto,"

12 WITNESSETH:

13 WHEREAS the parties hereto are the owners of working, royalty,
14 or other oil and gas interests in the unit area subject to this agree-
15 ment; and

16 WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat.
17 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees
18 and their representatives to unite with each other, or jointly or separately
19 with others, in collectively adopting and operating a cooperative or unit
20 plan of development or operation of any oil or gas pool, field, or like
21 area, or any part thereof for the purpose of more properly conserving
22 the natural resources thereof whenever determined and certified by the
23 Secretary of the Interior to be necessary or advisable in the public
24 interest; and

25 WHEREAS the Oil Conservation Commission of the State of New
26 Mexico is authorized by an Act of the Legislature (Chapter 72, Laws of
27 1935, as amended by Chapter 193, Laws of 1937; Chapter 166, Laws of
28 1941; and Chapter 168, Laws of 1949) to approve this agreement and the
29 conservation provisions hereof; and

30 WHEREAS the parties hereto hold sufficient interests in the
31 Bubbling Spring Unit Area covering the land hereinafter described
32 to give reasonably effective control of operations therein; and

1 WHEREAS, it is the purpose of the parties hereto to conserve
2 natural resources, prevent waste, and secure other benefits obtainable
3 through development and operation of the area subject to this agreement
4 under the terms, conditions, and limitations herein set forth;

5 NOW, THEREFORE, in consideration of the premises and the promises
6 herein contained, the parties hereto commit to this agreement their
7 respective interests in the below-defined unit area, and agree severally
8 among themselves as follows:

9 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of
10 February 25, 1920, as amended, supra, and all valid pertinent regulations,
11 including operating and unit plan regulations, heretofore issued thereunder
12 or valid, pertinent, and reasonable regulations hereafter issued thereunder
13 are accepted and made a part of this agreement as to Federal lands, pro-
14 vided such regulations are not inconsistent with the terms of this agree-
15 ment; and as to non-Federal lands, the oil and gas operating regulations
16 in effect as of the effective date hereof governing drilling and producing
17 operations, not inconsistent with the terms hereof or the laws of the
18 State in which the non-Federal land is located, are hereby accepted and
19 made a part of this agreement.

20 2. UNIT AREA. The area specified on the map attached hereto
21 marked Exhibit "A" is hereby designated and recognized as constituting
22 the unit area, containing 3,078.12 acres, more or less.

23 Exhibit "A" shows, in addition to the boundary of the unit
24 area, the boundaries and identity of tracts and leases in said area to
25 the extent known to the Unit Operator. Exhibit "B" attached hereto is
26 a schedule showing to the extent known to the Unit Operator the acreage,
27 percentage, and kind of ownership of oil and gas interests in all land
28 in the unit area. However, nothing herein or in said schedule or map
29 shall be construed as a representation by any party hereto as to the
30 ownership of any interest other than such interest or interests as are
31 shown in said map or schedule as owned by such party. Exhibits "A"

1 and "B" shall be revised by the Unit Operator whenever changes in the
2 unit area render such revision necessary, or when requested by the Oil
3 and Gas Supervisor, hereinafter referred to as "Supervisor" and not less
4 than five copies of the revised exhibits shall be filed with the
5 Supervisor and one copy with the New Mexico Oil Conservation Commission,
6 hereinafter referred to as "State Commission".

7 The above-described unit area shall when practicable be expanded
8 to include therein any additional lands or shall be contracted to exclude
9 lands whenever such expansion or contraction is deemed to be necessary
10 or advisable to conform with the purposes of this agreement. Such expan-
11 sion or contraction shall be effected in the following manner:

12 (a) Unit Operator, on its own motion or on demand of the
13 Director of the Geological Survey, hereinafter referred
14 to as "Director", after preliminary concurrence by the
15 Director, shall prepare a notice of proposed expansion
16 or contraction describing the contemplated changes in
17 the boundaries of the unit area, the reasons therefor,
18 and the proposed effective date thereof, preferably the
19 first day of a month subsequent to the date of notice.

20 (b) Said notice shall be delivered to the Supervisor, and the
21 State Commission and copies thereof mailed to the last known
22 address of each working interest owner, lessee, and lessor
23 whose interests are affected, advising that 30 days will be
24 allowed for submission to the Unit Operator of any objections.

25 (c) Upon expiration of the 30-day period provided in the preceding
26 item (b) hereof, Unit Operator shall file with the Supervisor
27 and the State Commission evidence of mailing of the notice of
28 expansion or contraction and a copy of any objections thereto
29 which have been filed with the Unit Operator, together with an
30 application in sufficient number, for approval of such
31 expansion or contraction and with appropriate joinders.

32 (d) After due consideration of all pertinent information, the

1 expansion or contraction shall, upon approval by the Supervisor,
2 become effective as of the date prescribed in the notice thereof.

3 (e) All legal subdivisions of lands (i.e., 40 acres by Government
4 survey or its nearest lot or tract equivalent; in instances of
5 irregular surveys unusually large lots or tracts shall be con-
6 sidered in multiples of 40 acres or the nearest aliquot equiva-
7 lent thereof), no parts of which are entitled to be in a
8 participating area on or before the fifth anniversary of the
9 effective date of the first initial participating area esta-
10 blished under this unit agreement, shall be eliminated auto-
11 matically from this agreement, effective as of said fifth
12 anniversary, and such lands shall no longer be a part of
13 the unit area and shall no longer be subject to this agree-
14 ment, unless diligent drilling operations are in progress
15 on unitized lands not entitled to participation on said
16 fifth anniversary, in which event all such lands shall
17 remain subject hereto for so long as such drilling operations
18 are continued diligently, with not more than 90 days' time
19 elapsing between the completion of one such well and the com-
20 mencement of the next such well. All legal subdivisions of
21 lands not entitled to be in a participating area within 10
22 years after the effective date of the first initial partici-
23 pating area approved under this agreement shall be auto-
24 matically eliminated from this agreement as of said tenth
25 anniversary. All lands proved productive by diligent drilling
26 operations after the aforesaid 5-year period shall become
27 participating in the same manner as during said 5-year
28 period. However, when such diligent drilling operations
29 cease, all nonparticipating lands shall be automatically
30 eliminated effective as of the 91st day thereafter. The unit
31 operator shall within 90 days after the effective date of
32 any elimination hereunder, describe the area so eliminated

1 to the satisfaction of the Supervisor and promptly notify
2 all parties in interest.

3 If conditions warrant extension of the 10-year period
4 specified in this subsection 2(e), a single extension of not
5 to exceed 2 years may be accomplished by consent of the
6 owners of 90% of the working interests in the current non-
7 participating unitized lands and the owners of 60% of the
8 basic royalty interests (exclusive of the basic royalty
9 interests of the United States) in nonparticipating unitized
10 lands with approval of the Director, provided such extension
11 application is submitted to the Director not later than 60
12 days prior to the expiration of said 10-year period.

13 Any expansion of the unit area pursuant to this section
14 which embraces lands theretofore eliminated pursuant to
15 this subsection 2(e) shall not be considered automatic
16 commitment or recommitment of such lands.

17 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to
18 this agreement shall constitute land referred to herein as "unitized land"
19 or "land subject to this agreement." All oil and gas in any and all
20 formations of the unitized land are unitized under the terms of this agree-
21 ment and herein are called "unitized substances."

22 4. UNIT OPERATOR. Amoco Production Company is
23 hereby designated as Unit Operator and by signature hereto as Unit Operator
24 agrees and consents to accept the duties and obligations of Unit Operator
25 for the discovery, development, and production of unitized substances as
26 herein provided. Whenever reference is made herein to the Unit Operator,
27 such reference means the Unit Operator acting in that capacity and not
28 as an owner of interest in unitized substances, and the term "working

1 interest owner" when used herein shall include or refer to Unit Operator
2 as the owner of a working interest when such an interest is owned by it.

3 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall
4 have the right to resign at any time prior to the establishment of a
5 participating area or areas hereunder, but such resignation shall not
6 become effective so as to release Unit Operator from the duties and
7 obligations of Unit Operator and terminate Unit Operator's rights as such
8 for a period of 6 months after notice of intention to resign has been
9 served by Unit Operator on all working interest owners and the Supervisor,
10 and until all wells then drilled hereunder are placed in a satisfactory
11 condition for suspension or abandonment whichever is required by the
12 Supervisor, unless a new Unit Operator shall have been selected and
13 approved and shall have taken over and assumed the duties and obliga-
14 tions of Unit Operator prior to the expiration of said period.

15 Unit Operator shall have the right to resign in like manner
16 and subject to like limitations as above provided at any time a partici-
17 pating area established hereunder is in existence, but, in all instances
18 of resignation or removal, until a successor unit operator is selected
19 and approved as hereinafter provided, the working interest owners shall
20 be jointly responsible for performance of the duties of unit operator,
21 and shall not later than 30 days before such resignation or removal
22 becomes effective appoint a common agent to represent them in any
23 action to be taken hereunder.

24 The resignation of Unit Operator shall not release Unit Operator
25 from any liability for any default by it hereunder occurring prior to
26 the effective date of its resignation.

27 The Unit Operator may, upon default or failure in the perform-
28 ance of its duties or obligations hereunder, be subject to removal by
29 the same percentage vote of the owners of working interests as herein
30 provided for the selection of a new Unit Operator. Such removal shall
31 be effective upon notice thereof to the Supervisor.

1 The resignation or removal of Unit Operator under this
2 agreement shall not terminate its right, title, or interest as the owner
3 of a working interest or other interest in unitized substances, but upon
4 the resignation or removal of Unit Operator becoming effective, such
5 Unit Operator shall deliver possession of all wells, equipment, materials,
6 and appurtenances used in conducting the unit operations to the new duly
7 qualified successor Unit Operator or to the common agent, if no such
8 new Unit Operator is elected, to be used for the purpose of conducting
9 unit operations hereunder. Nothing herein shall be construed as authorizing
10 removal of any material, equipment and appurtenances needed for the preserva-
11 tion of any wells.

12 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall
13 tender his or its resignation as Unit Operator or shall be removed as
14 hereinabove provided, or a change of Unit Operator is negotiated by
15 working interest owners, the owners of the working interests in the par-
16 ticipating area or areas according to their respective acreage interests
17 in such participating area or areas, or, until a participating area
18 shall have been established, the owners of the working interest according
19 to their respective acreage interests in all unitized land, shall by
20 majority vote select a successor Unit Operator: Provided, That, if a
21 majority but less than 75 percent of the working interests qualified to
22 vote are owned by one party to this agreement, a concurring vote of one
23 or more additional working interest owners shall be required to select
24 a new operator. Such selection shall not become effective until:

25 (a) A Unit Operator so selected shall accept in writing the
26 duties and responsibilities of Unit Operator, and

27 (b) The selection shall have been approved by the Supervisor.

28 If no successor Unit Operator is selected and qualified as
29 herein provided, the Director at his election may declare this unit
30 agreement terminated.

1 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the
2 Unit Operator is not the sole owner of working interests, costs and
3 expenses incurred by Unit Operator in conducting unit operations here-
4 under shall be paid and apportioned among and borne by the owners of
5 working interests, all in accordance with the agreement or agreements
6 entered into by and between the Unit Operator and the owners of
7 working interests, whether one or more, separately or collectively. Any
8 agreement or agreements entered into between the working interest owners
9 and the Unit Operator as provided in this section, whether one or more,
10 are herein referred to as the "unit operating agreement." Such unit
11 operating agreement shall also provide the manner in which the working
12 interest owners shall be entitled to receive their respective proportionate
13 and allocated share of the benefits accruing hereto in conformity with
14 their underlying operating agreements, leases, or other independent con-
15 tracts, and such other rights and obligations as between Unit Operator
16 and the working interest owners as may be agreed upon by Unit Operator and
17 the working interest owners; however, no such unit operating agreement
18 shall be deemed either to modify any of the terms and conditions of
19 this unit agreement or to relieve the Unit Operator of any right or
20 obligation established under this unit agreement, and in case of any
21 inconsistency or conflict between this unit agreement and the unit
22 operating agreement, this unit agreement shall govern. Three true
23 copies of any unit operating agreement executed pursuant to this section
24 should be filed with the Supervisor, prior to approval of this unit
25 agreement.

26 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise
27 specifically provided herein, the exclusive right, privilege, and duty
28 of exercising any and all rights of the parties hereto which are neces-
29 sary or convenient for prospecting for, producing, storing, allocating,
30 and distributing the unitized substances are hereby delegated to and shall

1 be exercised by the Unit Operator as herein provided. Acceptable evidence
2 of title to said rights shall be deposited with said Unit Operator and,
3 together with this agreement, shall constitute and define the rights,
4 privileges, and obligations of Unit Operator. Nothing herein, however,
5 shall be construed to transfer title to any land or to any lease or
6 operating agreement, it being understood that under this agreement the
7 Unit Operator, in its capacity as Unit Operator, shall exercise the rights
8 of possession and use vested in the parties hereto only for the purposes
9 herein specified.

10 9. DRILLING TO DISCOVERY. Within 6 months after the effective
11 date hereof, the Unit Operator shall begin to drill an adequate test
12 well at a location approved by the Supervisor, if on Federal land, unless
13 on such effective date a well is being drilled conformably with the terms
14 hereof, and thereafter continue such drilling diligently until all of the
15 formations of Pennsylvanian Age have been tested or until at a
16 lesser depth unitized substances shall be discovered which can be pro-
17 duced in paying quantities (to wit: quantities sufficient to repay the
18 costs of drilling, completing, and producing operations, with a reasonable
19 profit) or the Unit Operator shall at any time establish to the satis-
20 faction of the Supervisor, if on Federal land, that further drilling of
21 said well would be unwarranted or impracticable, provided, however, that
22 Unit Operator shall not in any event be required to drill said well to a
23 depth in excess of 10,400 feet. Until the discovery of a deposit of
24 unitized substances capable of being produced in paying quantities, the
25 Unit Operator shall continue drilling diligently one well at a time,
26 allowing not more than 6 months between the completion of one well and the
27 beginning of the next well, until a well capable of producing unitized
28 substances in paying quantities is completed to the satisfaction of said
29 Supervisor, if it be on Federal land, or until it is reasonably proved
30 that the unitized land is incapable of producing unitized substances in
31 paying quantities in the formations drilled hereunder. Nothing in this

1 section shall be deemed to limit the right of the Unit Operator to resign
2 as provided in Section 5, hereof, or as requiring Unit Operator to com-
3 mence or continue any drilling during the period pending such resignation
4 becoming effective in order to comply with the requirements of this
5 section. The Supervisor may modify the drilling requirements of this
6 section by granting reasonable extensions of time when, in his opinion,
7 such action is warranted.

8 Upon failure to commence any well provided for in this section
9 within the time allowed, including any extension of time granted by the
10 Supervisor, this agreement will automatically terminate; upon failure to
11 continue drilling diligently any well commenced hereunder, the Supervisor
12 may, after 15-days' notice to the Unit Operator, declare this unit agree-
13 ment terminated.

14 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months
15 after completion of a well capable of producing unitized substances in
16 paying quantities, the Unit Operator shall submit for the approval of
17 the Supervisor an acceptable plan of development and operation for the
18 unitized land which, when approved by the Supervisor, shall constitute
19 the further drilling and operating obligations of the Unit Operator
20 under this agreement for the period specified therein. Thereafter, from
21 time to time before the expiration of any existing plan, the Unit Operator
22 shall submit for the approval of the Supervisor a plan for an additional
23 specified period for the development and operation of the unitized land.

24 Any plan submitted pursuant to this section shall provide for
25 the exploration of the unitized area and for the diligent drilling
26 necessary for determination of the area or areas thereof capable of
27 producing unitized substances in paying quantities in each and every
28 productive formation and shall be as complete and adequate as the Super-
29 visor may determine to be necessary for timely development and proper
30 conservation of the oil and gas resources of the unitized area and
31 shall;

- 1 (a) specify the number and locations of any wells to be drilled
2 and the proposed order and time for such drilling; and
3 (b) to the extent practicable specify the operating practices
4 regarded as necessary and advisable for proper conservation
5 of natural resources.

6 Separate plans may be submitted for separate productive zones, subject
7 to the approval of the Supervisor.

8 Plans shall be modified or supplemented when necessary to
9 meet changed conditions or to protect the interests of all parties to
10 this agreement. Reasonable diligence shall be exercised in complying
11 with the obligations of the approved plan of development. The Super-
12 visor is authorized to grant a reasonable extension of the 6-month
13 period herein prescribed for submission of an initial plan of develop-
14 ment where such action is justified because of unusual conditions or
15 circumstances. After completion hereunder of a well capable of producing
16 any unitized substance in paying quantities, no further wells, except
17 such as may be necessary to afford protection against operations not
18 under this agreement and such as may be specifically approved by the
19 Supervisor, shall be drilled except in accordance with a plan of develop-
20 ment approved as herein provided.

21 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well
22 capable of producing unitized substances in paying quantities or as soon
23 thereafter as required by the Supervisor, the Unit Operator shall submit
24 for approval by the Supervisor a schedule, based on subdivisions of the
25 public-land survey or aliquot parts thereof, of all land then regarded
26 as reasonably proved to be productive in paying quantities; all lands in
27 said schedule on approval of the Supervisor to constitute a participating
28 area, effective as of the date of completion of such well or the effective
29 date of this unit agreement, whichever is later. The acreages of both
30 Federal and non-Federal lands shall be based upon appropriate computations
31 from the courses and distances shown on the last approved public-land

1 survey as of the effective date of each initial participating area.
2 Said schedule shall also set forth the percentage of unitized substances
3 to be allocated as herein provided to each tract in the participating
4 area so established, and shall govern the allocation of production com-
5 mencing with the effective date of the participating area. A separate
6 participating area shall be established for each separate pool or deposit
7 of unitized substances or for any group thereof which is produced as a
8 single pool or zone, and any two/or more participating areas so established
9 may be combined into one, on approval of the Supervisor. When production
10 from two or more participating areas, so established, is subsequently
11 found to be from a common pool or deposit said participating areas shall
12 be combined into one effective as of such appropriate date as may be
13 approved or prescribed by the Supervisor. The participating area or
14 areas so established shall be revised from time to time, subject to
15 like approval, to include additional land then regarded as reasonably
16 proved to be productive in paying quantities or necessary for unit
17 operations, or to exclude land then regarded as reasonably proved not
18 to be productive in paying quantities and the schedule of allocation
19 percentages shall be revised accordingly. The effective date of any
20 revision shall be the first of the month in which is obtained the knowledge
21 or information on which such revision is predicated, provided, however,
22 that a more appropriate effective date may be used if justified by the
23 Unit Operator and approved by the Supervisor. No land shall be excluded
24 from a participating area on account of depletion of the unitized substances,
25 except that any participating area established under the provisions of
26 this unit agreement shall terminate automatically whenever all completions
27 in the formation on which the participating area is based are abandoned.

28 It is the intent of this section that a participating area shall
29 represent the area known or reasonably estimated to be productive in paying
30 quantities; but, regardless of any revision of the participating area,
31 nothing herein contained shall be construed as requiring any retroactive

1 adjustment for production obtained prior to the effective date of the
2 revision of the participating area.

3 In the absence of agreement at any time between the Unit Operator
4 and the Supervisor as to the proper definition or redefinition of a partici-
5 pating area, or until a participating area has, or areas have, been
6 established as provided herein, the portion of all payments affected thereby
7 shall be impounded in a manner mutually acceptable to the owners of working
8 interests and the Supervisor. Royalties due the United States shall be
9 determined by the Supervisor and the amount thereof shall be deposited,
10 as directed by the Supervisor, to be held as unearned money until a
11 participating area is finally approved and then applied as earned or
12 returned in accordance with a determination of the sum due as Federal
13 royalty on the basis of such approved, participating area.

14 Whenever it is determined, subject to the approval of the
15 Supervisor, that a well drilled under this agreement is not capable
16 of production in paying quantities and inclusion of the land on which
17 it is situated in a participating area is unwarranted, production from
18 such well shall, for the purposes of settlement among all parties other
19 than working interest owners, be allocated to the land on which the
20 well is located unless such land is already within the participating
21 area established for the pool or deposit from which such production is
22 obtained. Settlement for working interest benefits from such a well
23 shall be made as provided in the unit operating agreement.

24 12. ALLOCATION OF PRODUCTION. All unitized substances produced
25 from each participating area established under this agreement, except any
26 part thereof used in conformity with good operating practices within the
27 unitized area for drilling, operating, camp and other production or
28 development purposes, for repressuring or recycling in accordance with
29 a plan of development approved by the Supervisor, or unavoidably lost,
30 shall be deemed to be produced equally on an acreage basis from the
31 several tracts of unitized land of the participating area established

1 for such production and, for the purpose of determining any benefits
2 accruing under this agreement, each such tract of unitized land shall
3 have allocated to it such percentage of said production as the number of
4 acres of such tract included in said participating area bears to the
5 total acres of unitized land in said participating area, except that
6 allocation of production hereunder for purposes other than for settlement
7 of the royalty, overriding royalty, or payment out of production obliga-
8 tions of the respective working interest owners, shall be on the basis
9 prescribed in the unit operating agreement whether in conformity with
10 the basis of allocation herein set forth or otherwise. It is hereby
11 agreed that production of unitized substances from a participating
12 area shall be allocated as provided herein regardless of whether any
13 wells are drilled on any particular part or tract of said participating
14 area. If any gas produced from one participating area is used for repres-
15 suring or recycling purposes in another participating area, the first
16 gas withdrawn from such last-mentioned participating area for sale during
17 the life of this agreement shall be considered to be the gas so transferred
18 until an amount equal to that transferred shall be so produced for sale
19 and such gas shall be allocated to the participating area from which
20 initially produced as such area was last defined at the time of such
21 final production.

22 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.
23 Any party hereto owning or controlling the working interest in any unitized
24 land having thereon a regular well location may with the approval of the
25 Supervisor, at such party's sole risk, costs, and expense, drill a well
26 to test any formation for which a participating area has not been established
27 or to test any formation for which a participating area has been established
28 if such location is not within said participating area, unless within 90
29 days of receipt of notice from said party of his intention to drill the
30 well the Unit Operator elects and commences to drill such a well in like
31 manner as other wells are drilled by the Unit Operator under this agreement.

1 If any well drilled as aforesaid by a working interest owner
2 results in production such that the land upon which it is situated may
3 properly be included in a participating area, such participating area
4 shall be established or enlarged as provided in this agreement and the
5 well shall thereafter be operated by the Unit Operator in accordance
6 with the terms of this agreement and the unit operating agreement.

7 If any well drilled as aforesaid by a working interest owner
8 obtains production in quantities insufficient to justify the inclusion of
9 the land upon which such well is situated in a participating area, such
10 well may be operated and produced by the party drilling the same subject
11 to the conservation requirements of this agreement. The royalties in
12 amount or value of production from any such well shall be paid as specified
13 in the underlying lease and agreements affected.

14 14. ROYALTY SETTLEMENT. The United States and any State and any
15 royalty owner who, is entitled to take in kind a share of the substances
16 now unitized hereunder shall hereafter be entitled to the right to take
17 in kind its share of the unitized substances, and Unit Operator, or the
18 working interest owner in case of the operation of a well by a working
19 interest owner as herein provided for in special cases, shall make
20 deliveries of such royalty share taken in kind in conformity with the
21 applicable contracts, laws, and regulations. Settlement for royalty
22 interest not taken in kind shall be made by working interest owners
23 responsible therefor under existing contracts, laws and regulations, or
24 by the Unit Operator on or before the last day of each month for unitized
25 substances produced during the preceding calendar month; provided, however,
26 that nothing herein contained shall operate to relieve the lessees of
27 any land from their respective lease obligations for the payment of any
28 royalties due under their leases.

29 If gas obtained from lands not subject to this agreement is
30 introduced into any participating area hereunder, for use in repres-
31 suring, stimulation of production, or increasing ultimate recovery, in

1 conformity with a plan of operations approved by the Supervisor, a like
2 amount of gas, after settlement as herein provided for any gas transferred
3 from any other participating area and with appropriate deduction for loss
4 from any cause, may be withdrawn from the formation into which the gas
5 is introduced, royalty free as to dry gas, but not as to any products
6 which may be extracted therefrom; provided that such withdrawal shall be
7 at such time as may be provided in the approved plan of operations or as
8 may otherwise be consented to by the Supervisor as conforming to good
9 petroleum engineering practice; and provided further, that such right of
10 withdrawal shall terminate on the termination of this unit agreement.

11 Royalty due the United States shall be computed as provided in
12 the operating regulations and paid in value or delivered in kind as to
13 all unitized substances on the basis of the amounts thereof allocated to
14 unitized Federal land as provided herein at the rates specified in the
15 respective Federal leases, or at such lower rate or rates as may be
16 authorized by law or regulation; provided, that for leases on which the
17 royalty rate depends on the daily average production per well, said
18 average production shall be determined in accordance with the operating
19 regulations as though each participating area were a single consolidated
20 lease.

21 Royalty due as to non-Federal lands under the respective leases
22 shall be computed and paid on the basis of all unitized substances
23 allocated to such lands hereunder.

24 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases
25 committed hereto shall be paid by working interest owners responsible
26 therefor under existing contracts, laws, and regulations, provided that
27 nothing herein contained shall operate to relieve the lessees of any
28 land from their respective lease obligations for the payment of any
29 rental or minimum royalty due under their leases. Rental or minimum
30 royalty for lands of the United States subject to this agreement shall
31 be paid at the rate specified in the respective leases from the United

1 States unless such rental or minimum royalty is waived, suspended, or
2 reduced by law or by approval of the Secretary or his duly authorized
3 representative.

4 With respect to any lease on non-Federal land containing pro-
5 visions which would terminate such lease unless drilling operations are
6 commenced upon the land covered thereby within the time therein specified
7 or rentals are paid for the privilege of deferring such drilling opera-
8 tions, the rentals required thereby shall, notwithstanding any other
9 provision of this agreement, be deemed to accrue and become payable
10 during the term thereof as extended by this agreement and until the
11 required drilling operations are commenced upon the land covered thereby
12 or until some portion of such land is included within a participating
13 area.

14 16. CONSERVATION. Operations hereunder and production of unitized
15 substances shall be conducted to provide for the most economical and
16 efficient recovery of said substances without waste, as defined by or
17 pursuant to State or Federal law or regulation.

18 17. DRAINAGE. The Unit Operator shall take such measures as the
19 Supervisor deems appropriate and adequate to prevent drainage of unitized
20 substances from unitized land by wells on land not subject to this agree-
21 ment.

22 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con-
23 ditions, and provisions of all leases, subleases, and other contracts
24 relating to exploration, drilling, development, or operation for oil or
25 gas on lands committed to this agreement are hereby expressly modified
26 and amended to the extent necessary to make the same conform to the
27 provisions hereof, but otherwise to remain in full force and effect; and
28 the parties hereto hereby consent that the Secretary as to Federal leases

1 shall and by his approval hereof, or by the approval hereof by his duly
2 authorized representative, does hereby establish, alter, change, or revoke
3 the drilling, producing, rental, minimum royalty, and royalty require-
4 ments of Federal leases committed hereto and the regulations in respect
5 thereto to conform said requirements to the provisions of this agreement,
6 and, without limiting the generality of the foregoing, all leases, sub-
7 leases, and contracts are particularly modified in accordance with the
8 following:

- 9 (a) The development and operation of lands subject to this
10 agreement under the terms hereof shall be deemed full
11 performance of all obligations for development and opera-
12 tion with respect to each and every separately owned tract
13 subject to this agreement, regardless of whether there is
14 any development of any particular tract of the unit area.
- 15 (b) Drilling and producing operations performed hereunder upon
16 any tract of unitized lands will be accepted and deemed
17 to be performed upon and for the benefit of each and every
18 tract of unitized land, and no lease shall be deemed to
19 expire by reason of failure to drill or produce wells
20 situated on the land therein embraced.
- 21 (c) Suspension of drilling or producing operations on all
22 unitized lands pursuant to direction or consent of the
23 Secretary or his duly authorized representative shall be
24 deemed to constitute such suspension pursuant to such
25 direction or consent as to each and every tract of
26 unitized land. A suspension of drilling or producing
27 operations limited to specified lands shall be applicable
28 only to such lands.
- 29 (d) Each lease, sublease or contract relating to the exploration,
30 drilling, development or operation for oil or gas of lands
31 other than those of the United States committed to this
32 agreement, which, by its terms might expire prior to the

1 termination of this agreement, is hereby extended beyond
2 any such terms so provided therein so that it shall be
3 continued in full force and effect for and during the
4 term of this agreement.

5 (e) Any Federal lease for a fixed term of twenty (20) years
6 or any renewal thereof or any part of such lease which
7 is made subject to this agreement shall continue in force
8 beyond the term provided therein until the termination
9 hereof. Any other Federal lease committed hereto shall
10 continue in force beyond the term so provided therein or
11 by law as to the land committed so long as such lease
12 remains subject hereto, provided that production
13 is had in paying quantities under this unit agreement
14 prior to the expiration date of the term of such lease,
15 or in the event actual drilling operations are commenced
16 on unitized land, in accordance with the provisions of
17 this agreement, prior to the end of the primary term of
18 such lease and are being diligently prosecuted at that
19 time, such lease shall be extended for two years and so
20 long thereafter as oil or gas is produced in paying
21 quantities in accordance with the provisions of the Mineral
22 Leasing Act Revision of 1960.

23 (f) Each sublease or contract relating to the operation and
24 development of unitized substances from lands of the United
25 States committed to this agreement, which by its terms
26 would expire prior to the time at which the underlying
27 lease, as extended by the immediately preceding paragraph,
28 will expire, is hereby extended beyond any such term so
29 provided therein so that it shall be continued in full
30 force and effect for and during the term of the underlying
31 lease as such term is herein extended.

1 (g) The segregation of any Federal lease committed to this
2 agreement is governed by the following provision in the
3 fourth paragraph of Sec. 17(j) of the Mineral Leasing Act,
4 as amended by the Act of September 2, 1960 (74 Stat. 781-784):
5 "Any [Federal] lease heretofore or hereafter committed to
6 any such [unit] plan embracing lands that are in part
7 within and in part outside of the area covered by any
8 such plan shall be segregated into separate leases as to
9 the lands committed and the lands not committed as of the
10 effective date of unitization: Provided, however, That
11 any such lease as to the nonunitized portion shall continue
12 in force and effect for the term thereof but for not
13 less than two years from the date of such segregation and
14 so long thereafter as oil or gas is produced in paying
15 quantities."

16 (h) Any lease, other than a Federal lease, having only a
17 portion of its lands committed hereto shall be segregated
18 as to the portion committed and the portion not committed,
19 and the provisions of such lease shall apply separately to
20 such segregated portions commencing as of the effective
21 date hereof. In the event any such lease provides for a
22 lump-sum rental payment, such payment shall be prorated
23 between the portions so segregated in proportion to the
24 acreage of the respective tracts.

25 19. COVENANTS RUN WITH LAND. The covenants herein shall be con-
26 strued to be covenants running with the land with respect to the interest
27 of the parties hereto and their successors in interest until this agree-
28 ment terminates, and any grant, transfer, or conveyance, of interest in

1 land or leases subject hereto shall be and hereby is conditioned upon
2 the assumption of all privileges and obligations hereunder by the grantee,
3 transferee, or other successor in interest. No assignment or transfer
4 of any working interest, royalty, or other interest subject hereto shall
5 be binding upon Unit Operator until the first day of the calendar month
6 after Unit Operator is furnished with the original, photostatic, or
7 certified copy of the instrument of transfer.

8 20. EFFECTIVE DATE AND TERM. This agreement shall become effective
9 upon approval by the Secretary or his duly authorized representative and
10 shall terminate five (5) years from said effective date unless:

- 11 (a) such date of expiration is extended by the Director, or
12 (b) it is reasonably determined prior to the expiration of
13 the fixed term or any extension thereof that the unitized
14 land is incapable of production of unitized substances in
15 paying quantities in the formations tested hereunder and
16 after notice of intention to terminate the agreement on
17 such ground is given by the Unit Operator to all parties
18 in interest at their last known addresses, the agreement
19 is terminated with the approval of the Supervisor, or
20 (c) a valuable discovery of unitized substances has been made
21 or accepted on unitized land during said initial term or any
22 extension thereof, in which event the agreement shall remain
23 in effect for such term and so long as unitized substances
24 can be produced in quantities sufficient to pay for the cost
25 of producing same from wells on unitized land within any
26 participating area established hereunder and, should pro-
27 duction cease, so long thereafter as diligent operations are
28 in progress for the restoration of production or discovery
29 of new production and so long thereafter as unitized
30 substances so discovered can be produced as aforesaid, or
31 (d) it is terminated as heretofore provided in this agreement.

1 This agreement may be terminated at any time by not less than 75 percentum,
2 on an acreage basis, of the working interest owners signatory hereto, with
3 the approval of the Supervisor; notice of any such approval to be given
4 by the Unit Operator to all parties hereto.

5 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director
6 is hereby vested with authority to alter or modify from time to time in
7 his discretion the quantity and rate of production under this agreement
8 when such quantity and rate is not fixed pursuant to Federal or State
9 law or does not conform to any state-wide voluntary conservation or alloca-
10 tion program, which is established, recognized, and generally adhered to
11 by the majority of operators in such State, such authority being hereby
12 limited to alteration or modification in the public interest, the purpose
13 thereof and the public interest to be served thereby to be stated in the
14 order of alteration or modification. Without regard to the foregoing,
15 the Director is also hereby vested with authority to alter or modify
16 from time to time in his discretion the rate of prospecting and develop-
17 ment and the quantity and rate of production under this agreement when such
18 alteration or modification is in the interest of attaining the conserva-
19 tion objectives stated in this agreement and is not in violation of
20 any applicable Federal or State law.

21 Powers in this section vested in the Director shall only be
22 exercised after notice to Unit Operator and opportunity for hearing to be
23 held not less than 15 days from notice.

24 22. APPEARANCES. Unit Operator shall, after notice to other parties
25 affected, have the right to appear for and on behalf of any and all interests
26 affected hereby before the Department of the Interior and to appeal from
27 orders issued under the regulations of said Department or to apply for
28 relief from any of said regulations or in any proceedings relative to
29 operations before the Department of the Interior or any other legally
30 constituted authority; provided, however, that any other interested party

1 shall also have the right at his own expense to be heard in any such pro-
2 ceeding.

3 23. NOTICES. All notices, demands or statements required hereunder
4 to be given or rendered to the parties hereto shall be deemed fully given
5 if given in writing and personally delivered to the party or sent by
6 postpaid registered or certified mail, addressed to such party or parties
7 at their respective addresses set forth in connection with the signatures
8 hereto or to the ratification or consent hereof or to such other address
9 as any such party may have furnished in writing to party sending the
10 notice, demand or statement.

11 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained
12 shall be construed as a waiver by any party hereto of the right to assert
13 any legal or constitutional right or defense as to the validity or invalidity
14 of any law of the State wherein said unitized lands are located, or of the
15 United States, or regulations issued thereunder in any way affecting such
16 party, or as a waiver by any such party of any right beyond his or its
17 authority to waive.

18 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring
19 the Unit Operator to commence or continue drilling or to operate on or
20 produce unitized substances from any of the lands covered by this agree-
21 ment shall be suspended while the Unit Operator, despite the exercise of
22 due care and diligence, is prevented from complying with such obligations,
23 in whole or in part, by strikes, acts of God, Federal, State, or municipal
24 law or agencies, unavoidable accidents, uncontrollable delays in trans-
25 portation, inability to obtain necessary materials in open market, or other
26 matters beyond the reasonable control of the Unit Operator whether similar
27 to matters herein enumerated or not. No unit obligation which is suspended
28 under this section shall become due less than thirty (30) days after it

1 has been determined that the suspension is no longer applicable. Deter-
2 mination of creditable "Unavoidable Delay" time shall be made by the unit
3 operator subject to approval of the Supervisor.

4 26. NONDISCRIMINATION. In connection with the performance of work
5 under this agreement, the operator agrees to comply with all the provisions
6 of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319),
7 which are hereby incorporated by reference in this agreement.

8 27. LOSS OF TITLE. In the event title to any tract of unitized
9 land shall fail and the true owner cannot be induced to join in this
10 unit agreement, such tract shall be automatically regarded as not committed
11 hereto and there shall be such readjustment of future costs and benefits
12 as may be required on account of the loss of such title. In the event of
13 a dispute as to title as to any royalty, working interest, or other
14 interests subject thereto, payment or delivery on account thereof may be
15 withheld without liability for interest until the dispute is finally
16 settled; provided, that, as to Federal land or leases, no payments of
17 funds due the United States should be withheld, but such funds shall be
18 deposited as directed by the Supervisor to be held as unearned money
19 pending final settlement of the title dispute, and then applied as earned
20 or returned in accordance with such final settlement.

21 Unit Operator as such is relieved from any responsibility for
22 any defect or failure of any title hereunder.

23 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub-
24 stantial interest in a tract within the unit area fails or refuses to
25 subscribe or consent to this agreement, the owner of the working interest
26 in that tract may withdraw said tract from this agreement by written
27 notice delivered to the Supervisor and the Unit Operator prior to the
28 approval of this agreement by the Supervisor. Any oil or gas interests
29 in lands within the unit area not committed hereto prior to submission

1 of this agreement for final approval may thereafter be committed hereto
2 by the owner or owners thereof subscribing or consenting to this agreement,
3 and, if the interest is a working interest, by the owner of such interest
4 also subscribing to the unit operating agreement. After operations are
5 commenced hereunder, the right of subsequent joinder, as provided in this
6 section, by a working interest owner is subject to such requirements or
7 approvals, if any, pertaining to such joinder, as may be provided for in
8 the unit operating agreement. After final approval hereof, joinder by a
9 non-working interest owner must be consented to in writing by the working
10 interest owner committed hereto and responsible for the payment of any
11 benefits that may accrue hereunder in behalf of such non-working interest.
12 A non-working interest may not be committed to this unit agreement unless
13 the corresponding working interest is committed hereto. Joinder to
14 the unit agreement by a working-interest owner, at any time, must be
15 accompanied by appropriate joinder to the unit operating agreement, if
16 more than one committed working-interest owner is involved, in order for
17 the interest to be regarded as committed to this unit agreement. Except
18 as may otherwise herein be provided, subsequent joinders to this agree-
19 ment shall be effective as of the first day of the month following
20 the filing with the Supervisor of duly executed counterparts of all or
21 any papers necessary to establish effective commitment of any tract to this
22 agreement unless objection to such joinder is duly made within 60 days
23 by the Supervisor.

24 29. COUNTERPARTS. This agreement may be executed in any number of
25 counterparts no one of which needs to be executed by all parties or may
26 be ratified or consented to by separate instrument in writing specifically
27 referring hereto and shall be binding upon all those parties who have
28 executed such a counterpart, ratification, or consent hereto with the
29 same force and effect as if all such parties had signed the same docu-
30 ment and regardless of whether or not it is executed by all other parties
31 owning or claiming an interest in the lands within the above-described
32 unit area.

1 30. SURRENDER. Nothing in this agreement shall prohibit the
2 exercise by any working interest owner of the right to surrender vested
3 in such party by any lease, sublease, or operating agreement as to all
4 or any part of the lands covered thereby, provided that each party who
5 will or might acquire such working interest by such surrender or by
6 forfeiture as hereafter set forth, is bound by the terms of this agree-
7 ment.

8 If as a result of any such surrender the working interest rights
9 as to such lands become vested in any party other than the fee owner of
10 the unitized substances, said party may forfeit such rights and further
11 benefits from operation hereunder as to said land to the party next in
12 the chain of title who shall be and become the owner of such working
13 interest.

14 If as the result of any such surrender or forfeiture working
15 interest rights become vested in the fee owner of the unitized substances,
16 such owner may:

- 17 (1) Accept those working interest rights subject to this
18 agreement and the unit operating agreement; or
19 (2) Lease the portion of such land as is included in a
20 participating area established hereunder subject to this
21 agreement and the unit operating agreement.
22 (3) Provide for the independent operation of any part of such
23 land that are not then included within a participating
24 area established hereunder.

25 If the fee owner of the unitized substances does not accept
26 the working interest rights subject to this agreement and the unit
27 operating agreement or lease such lands as above provided within six (6)
28 months after the surrendered or forfeited working interest rights become
29 vested in the fee owner, the benefits and obligations of operations
30 accruing to such lands under this agreement and the unit operating
31 agreement shall be shared by the remaining owners of unitized working
32 interests in accordance with their respective working interest ownerships,

1 and such owners of working interests shall compensate the fee owner of
2 unitized substances in such lands by paying sums equal to the rentals,
3 minimum royalties, and royalties applicable to such lands under the
4 lease in effect when the lands were unitized.

5 An appropriate accounting and settlement shall be made for all
6 benefits accruing to or payments and expenditures made or incurred on
7 behalf of such surrendered or forfeited working interest subsequent to
8 the date of surrender or forfeiture, and payment of any monies found to
9 be owing by such an accounting shall be made as between the parties
10 within thirty (30) days. In the event no unit operating agreement is in
11 existence and a mutually acceptable agreement between the proper parties
12 thereto cannot be consummated, the Supervisor may prescribe such reasonable
13 and equitable agreement as he deems warranted under the circumstances.

14 The exercise of any right vested in a working interest owner to
15 reassign such working interest to the party from whom obtained shall be
16 subject to the same conditions as set forth in this section in regard to
17 the exercise of a right to surrender.

18 31. TAXES. The working interest owners shall render and pay for their
19 account and the account of the royalty owners all valid taxes on or
20 measured by the unitized substances in and under or that may be produced,
21 gathered and sold from the land subject to this contract after the effec-
22 tive date of this agreement, or upon the proceeds or net proceeds derived
23 therefrom. The working interest owners on each tract shall and may
24 charge the proper proportion of said taxes to the royalty owners having
25 interests in said tract, and may currently retain and deduct sufficient
26 of the unitized substances or derivative products, or net proceeds thereof
27 from the allocated share of each royalty owner to secure reimbursement
28 for the taxes so paid. No such taxes shall be charged to the United
29 States or the State of New Mexico or to any lessor who has a
30 contract with his lessee which requires the lessee to pay such taxes.

EXHIBIT "B"
 BUBBLING SPRING
 EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
1	T. 20 S. - R. 26 E. Sec. 23: S/2	320.00	LC-070032-B 1-1-74	A11-U.S.A.	Gulf Oil Corporation	Pauline A. Galt \$750/Acre pp out of 5%	Surface to 8900' Gulf Oil Corporation 74.03350% Pan American Petroleum Corporation 25.00000% Yates Petroleum Corporation 0.96650% From 8900' to Base Penn Gulf Oil Corporation 50.00000% Pan American Petroleum Corporation 50.00000% Below Base Penn Formation Gulf Oil Corporation 100.00000%
2	T. 20 S. - R. 26 E. Sec. 22: N/2 NE/4; SW/4 NE/4	120.00	LC-071847 1-1-74	A11-U.S.A.	Cities Service Oil Co. Gulf Oil Corporation Pan American Petroleum Corp. Phillips Petroleum Co.	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg), Reischman, Tom Ingram, E.H. Ward- Tr. \$750/Acre PP out of 5% Foster Morrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.00000% Phillips Petroleum 14.28571% Yates Petroleum Corp. 1.10457% From 8900' to Base Penn. Cities Service Oil Co. 7.14286% Gulf Oil Corporation 28.57143% Pan American Petroleum Corporation 50.00000% Phillips Petroleum Co. 14.28571% Below Base Penn Formation Cities Service Oil Co. 3.57143% Gulf Oil Corporation 14.28571% Pan American Petroleum Corporation 75.00000% Phillips Petroleum Co. 7.14286%

EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
3	T. 20 S. - R. 26 E. Sec. 22: SE/4 NE/4	40.00	LC-071847-A 1-1-74	A11-U.S.A.	Cities Service Oil Co. Phillips Petroleum Co. 50.000000% 50.000000%	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg), Reischman, Tom Ingram, E.H. Ward-Tr. \$750/Acre pp out of 5% Foster Murrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.00000% Phillips Petroleum Co. 14.28571% Yates Petroleum Corp. 1.10457%
4	T. 20 S. - R. 26 E. Sec. 21: E/2 SE/4 Sec. 28: S/2 NE/4, SE/4 SE/4, NE/4 NE/4	240.00	HM-03215 H.B.P.	A11-U.S.A.	Cities Service Oil Co. Gulf Oil Corporation 3.57143% 56.03829%	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg), Reischman, Tom Ingram, E.H. Ward-Tr. \$750/Acre pp out of 5% Foster Morrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.00000% Phillips Petroleum Co. 14.28571% Yates Petroleum Corp. 1.10457%

From 8900' to Base Penn
Cities Service Oil Co. 7.14286%
Gulf Oil Corporation 28.57143%
Pan American Petroleum Corporation 50.00000%
Phillips Petroleum Co. 14.28571%
Below Base Penn Formation
Cities Service Oil Co. 3.57143%

EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
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5	T. 20 S. - R. 26 E. Sec. 21: NW/4 SE/4 Sec. 27: E/2 NW/4 Sec. 28: N/2 SE/4, SW/4 SE/4	240.00	NM-03215-A H.B.P.	A11-U.S.A.	Cities Service Oil Co. 50.00000% Phillips Petroleum Co. 50.00000%	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg) Reischman, Tom Ingram, E.H. Ward-Tr. \$750/Acre pp out of 5% Foster Morrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.00000% Phillips Petroleum Co. 14.28571% Yates Petroleum Corp. 1.10457%
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6	T. 20 S. - R. 26 E. Sec. 22: SW/4 Sec. 27: NW/4 NW/4	200.00	NM-03217 1-1-74	A11-U.S.A.	Cities Service Oil Co. 7.14286% Gulf Oil Corporation 28.57143% Pan American Petroleum Corp. 50.00000% Phillips Petroleum Co. 14.28571%	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg) Reischman, Tom Ingram, E.H. Ward-Tr. \$750/Acre pp out of 5% Foster Morrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.00000% Phillips Petroleum Co. 14.28571% Yates Petroleum Corp. 1.10457%
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Below Base Penn Formation
Cities Service Oil Co. 3.57143%
 Gulf Oil Corporation 14.28571%
 Pan American Petroleum Corporation 75.00000%
 Phillips Petroleum Co. 7.14286%

Surface to 8900'
Cities Service Oil Co. 3.57143%
 Gulf Oil Corporation 56.03829%
 Pan American Petroleum Corporation 25.00000%
 Phillips Petroleum Co. 14.28571%
 Yates Petroleum Corp. 1.10457%

From 8900' to Base Penn
Cities Service Oil Co. 7.14286%
 Gulf Oil Corporation 28.57143%
 Pan American Petroleum Corporation 50.00000%
 Phillips Petroleum Co. 14.28571%

Phillips Petroleum Co. 14.28571%

EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
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7 T. 20 S. - R. 26 E.
Sec. 22: NW/4, SE/4 320.00 NM-03217-A 1-1-74 A11-U.S.A.

Cities Service Oil Co.
50.000000%
Phillips Petroleum Co.
50.000000%

Childress Royalty
Co., E.E. Nearburg,
Anna A. (Nearburg)
Reischman, Tom
Ingram, E.H. Ward-
Tr. \$750/Acre pp
out of 5%
Foster Morrell 2%
Tracy Clark &
Robert Boling
1/4 of 1%

Surface to 8900'
Cities Service Oil Co. 3.57143%
Gulf Oil Corporation 56.03829%
Pan American Petroleum Corporation 25.00000%
Phillips Petroleum Co. 14.28571%
Yates Petroleum Corp. 1.10457%

From 8900' to Base Penn
Cities Service Oil Co. 7.14286%
Gulf Oil Corporation 28.57143%
Pan American Petroleum Corporation 50.00000%
Phillips Petroleum Co. 14.28571%

Below Base Penn Formation
Cities Service Oil Co. 3.57143%
Gulf Oil Corporation 14.28571%
Pan American Petroleum Corporation 75.00000%
Phillips Petroleum Co. 7.14286%

8 T. 20 S. - R. 26 E.
Sec. 21: W/2 NE/4 80.00 NM-03365 1-1-74 A11-U.S.A.

Cities Service Oil Co.
7.14286%
Gulf Oil Corporation 28.57143%
Pan American Petroleum Corp. 50.00000%
Phillips Petroleum Co. 14.28571%

Childress Royalty
Co., E.E. Nearburg,
Anna A. (Nearburg)
Reischman, Tom
Ingram, E.H. Ward-
Tr. \$750/Acre pp
out of 5%
Foster Morrell 2%
Tracy Clark &
Robert Boling
1/4 of 1%

Surface to 8900'
Cities Service Oil Co. 3.57143%
Gulf Oil Corporation 56.03829%
Pan American Petroleum Corporation 25.00000%
Phillips Petroleum Co. 14.28571%
Yates Petroleum Co. 1.10457%

From 8900' to Base Penn
Cities Service Oil Co. 7.14286%
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EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
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Contd.

							Pan American Petroleum Corporation 50.000000% Phillips Petroleum Co. 14.28571%
							Below Base Penn Formation Cities Service Oil Co. 3.57143% Gulf Oil Corporation 14.28571% Pan American Petroleum Corporation 75.000000%
							Phillips Petroleum Co. 7.14286%

9

	T. 20 S. - R. 26 E. Sec. 21: E/2 NE/4	80.00	NM-03365-A 1-1-74	A11-U.S.A.	Cities Service Oil Co. 50,00000% Phillips Petroleum Co. 50,00000%	Childress Royalty Co., E.E. Nearburg, Anna A. (Nearburg) Reischman, Tom Ingram, E.H. Ward- Tr. \$750/Acre PP out of 5% Foster Morrell 2% Tracy Clark & Robert Boling 1/4 of 1%	Surface to 8900' Cities Service Oil Co. 3.57143% Gulf Oil Corporation 56.03829% Pan American Petroleum Corporation 25.000000% Phillips Petroleum Co. 14.28571% Yates Petroleum Corp. 1.10457%
							From 8900' to Base Penn Cities Service Oil Co. 7.14286% Gulf Oil Corporation 28.57143% Pan American Petroleum Corporation 50.000000% Phillips Petroleum Co. 14.28571%
							Below Base Penn Formation Cities Service Oil Co. 3.57143% Gulf Oil Corporation 14.28571% Pan American Petroleum Corporation 75.000000% Phillips Petroleum Co. 7.14286%

10

	T. 20 S. - R. 26 E. Sec. 27: A11 of NE/4 SW/4 5.20 East of Pecos River		NM-038124 1-1-74	A11-U.S.A.	Cities Service Oil Co. Peter O. Nyce, Jr. & Christine P. Nyce 1%	Surface to 8900' Cities Service Oil Co. 25.000000% Gulf Oil Corporation 48.06700% Pan American Petroleum Corporation 25.000000% Yates Petroleum Corp. 1.93300%
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EXHIBIT "G" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
10							
Contd.							
11	T. 20 S. - R. 26 E. Sec. 27: N/2 SE/4 East of Pecos River	21.00	NM-038124-A 1-1-74	A11-U.S.A.	Pan American Petroleum Corporation	Peter O. Nyce, Jr. & Christine P. Nyce 1%	Below 8900' Cities Service Oil Co. 50.00000% Pan American Petroleum Corporation 50.00000%
12	T. 20 S. - R. 26 E. Sec. 27: E/2 NE/4	80.00	NM-0283953A 1-1-74	A11-U.S.A.	Gulf Oil Corporation	David M. Evans 5%	Surface to 8900' Gulf Oil Corporation 74.03350% Pan American Petroleum Corporation 25.00000% Yates Petroleum Corp. 0.96650%
13	T. 20 S. - R. 26 E. Sec. 26: E/2, NW/4, E/2 963.67 SW/4 Sec. 35: E/2, E/2 W/2 Save and except an un- surveyed 76.33 acre tract lying along the west side of SE/4 SW/4 of Sec. 26 and E/2 W/2 Sec. 35.		NM-0338758 H.B.P.	A11-U.S.A.	Gulf Oil Corporation	Pauline A. Galt \$500/Acre pp out of 1/2 of 1%-George D. Riggs \$500/Acre pp out of 2.25%-Neil H. Willis \$500/Acre pp out of 2.25%	Below Base Penn Formation Gulf Oil Corporation 100.00000% Surface to 8900' Gulf Oil Corporation 74.03350% Pan American Petroleum Corporation 25.00000% Yates Petroleum Corp. 0.96650%
							From 8900' to Base Penn Gulf Oil Corporation 50.00000% Pan American Petroleum Corporation 50.00000%

EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
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13

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14	T. 20 S. - R. 26 E. Sec. 27: W/2 NE/4	80.00	NM-0426336 1-1-74	A11-U.S.A.	Pan American Petroleum Corporation	F. J. Bradshaw 3%	Surface to 8900' Gulf Oil Corporation 48.06700% Pan American Petroleum Corporation 50.00000% Yates Petroleum Corp. 1.93300%
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Below 8900'
Pan American Petroleum Corporation
100.00000%

15	T. 20 S. - R. 26 E. Sec. 27: SW/4 NW/4, NW/4 SW/4	14.00	BLM-A-026872 1-1-74	A11-U.S.A.	Cities Service Oil Co.	Peter N. Nyce, Jr. & Christine P. Nyce 1%	Surface to 8900' Cities Service Oil Co. 12.50000% Gulf Oil Corporation 61.05024% Pan American Petroleum Corporation 25.00000% Yates Petroleum Corp. 1.44976%
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From 8900' to Base Penn
Cities Service Oil Co. 25.00000%
Gulf Oil Corporation 25.00000%
Pan American Petroleum Corporation 50.00000%

Sec. 28: NW/4 NE/4
Lying East
of Pecos River
Lying East
of Pecos River

Below Base Penn Formation
Cities Service Oil Co. 50.00000%
Pan American Petroleum Corporation 50.00000%

16	T. 20 S. - R. 26 E. Sec. 21: A11 SW/4 SE/4	28.00	BLM-A-026872-A 1-1-74	A11-U.S.A.	Pan American Petroleum Corporation	Peter N. Nyce, Jr. & Christine P. Nyce 1%	Surface to 8900' Gulf Oil Corporation 61.05025% Pan American Petroleum Corporation 37.50000% Yates Petroleum Corp. 1.44975%
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Lying East of
Pecos River

From 8900' to Base Penn
Gulf Oil Corporation 25.00000%

EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
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16							
Contd.							

17	I. 20 S. - R. 26 E. Sec. 26: NW/4 SW/4 lying East of Pecos River	37.25	BLM-A-032236-B H.B.P.	All-U.S.A.	Gulf Oil Corporation	Elk Oil Co.	2% Gulf Oil Corporation	100.000000% Pan American Petroleum Corporation Below Base Penn Pan American Petroleum Corporation 100.000000%
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17 Tracts	Federal Lands	2,869.12 Acres				93.21% of Unit Area		
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18	I. 20 S. - R. 26 E. Sec. 27: Farmchild Farm Trs. 785,786,787,788, 789,790, being all of N/2 S/2 & SE/4 SE/4 SAVE & EXCEPT that acreage lying & being on the left or east bank of the Pecos River & SAVE & EXCEPT Fairchild Farm Tr.784 conveyed to W.M. Trutt by Tax Deed recorded in Vol.D6, Pg.31, Deed Record, Eddy Co., N.M., & being approx. the North 16 acres of NW/4 SW/4	115.5	Fee Lease	12.5% T. D. Hardesty	Gulf Oil Corporation	None	Gulf Oil Corporation	100.000000%
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19	I. 20 S. - R. 26 E. Sec. 27: Fairchild Farm Tr.784, being approx. the North 16 acres of NW/4 SW/4	16.00	Fee Lease	18.75%-M.M. Trutt	Gulf Oil Corporation	None	Gulf Oil Corporation	100.000000%
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EXHIBIT "B" - BUBBLING SPRING, EDDY COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE
20	T. 20 S. - R. 26 E. Sec. 26: NW/4 SW/4 SAVE & EXCEPT all that part of each of the above described tracts lying & being on the left or east bank of the Pecos River	2.75	Fee Lease H.B.P.	C.L. Thacker	Pan American Petroleum Corporation	None	Surface to 8900' Gulf Oil Corporation 48.06700% Pan American Petroleum Corporation 50.00000% Yates Petroleum Corp. 1.93300% Below 8900' Pan American Petroleum Corporation 100.00000%
21	T. 20 S. - R. 26 E. Sec. 21: SW/4 SE/4 being a part of the Fairchild Farm Tr. 781 Sec. 27: SW/4 NW/4 Sec. 28: NW/4 NE/4 being Fairchild Farm Trs. 782, 783 & a part of 781, SAVE & EXCEPT all that part of each of the above described tracts lying & being on the left or east bank of the Pecos River	74.75	Fee Lease	All-C.C. Foster	Tesoro Petroleum Corp	William R. Lawson 3%	Tesoro Petroleum Corp. 100.00000%

4 Tracts Fee Lands

209 Acres

6.79% of Unit Area

RECAPITULATION

FEDERAL LANDS	2,869.12	ACRES	93.21000%	UNIT AREA
FEE LANDS	<u>209.00</u>	ACRES	<u>6.79000%</u>	UNIT AREA
TOTAL LANDS	3,078.12	ACRES	100.00000%	UNIT AREA